

Employees: How to Find and Pay Them



Personnel

Management

Series

Building America's Future

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INTRODUCTION

Finding and keeping qualified employees are crucial to the success of any small business.

Many staffing issues confront the employer: job descriptions, pay schedules, work rules, motivation, recruiting, interviewing, hiring, training, supervising, evaluating, retaining and firing.

There also are a multitude of laws and regulations confronting employers, including the following:

- Immigration Reform and Control Act of 1986
- Civil Rights Act (Title VII on employment discrimination)
- Equal Employment Opportunity Act
- National Labor Relations Act
- Fair Labor Standards Act
- Employee Retirement Income Security Act (ERISA), Pension Reform Act of 1974
- Consolidated Omnibus Budget Reconciliation Act (COBRA)
- Occupational Health and Safety Act

- Right-to-Know Chemical Act
- Federal Rehabilitation Act of 1973
- Age Discrimination in Employment Act
- Drug Free Workplace Act of 1988
- Vietnam Era Veterans Readjustment Assistance Act of 1974
- Worker Adjustment and Retraining Notification Act of 1988
- Americans with Disabilities Act of 1990

And, of course, there are the many payroll-related reports and payments required by the Internal Revenue Service.

All have a bearing on hiring and conduct of the workplace.

This publication suggests guidelines for creating employment policies that meet the needs of your business as well as alternatives to ease administration and operating burdens.

STAFFING YOUR FIRM

A business is only as good as the people who staff it. To effectively manage your small store or shop, you must take time to find and hire the right employees.

This section discusses the process of staffing a small retail or service business: setting personnel policies, determining the skills and abilities needed, finding applicants, developing application forms and interviewing prospective employees.

Staffing is critically important to a business, regardless of its size. All firms take the same risk in hiring a new employee; however, the smaller the firm, the greater the consequences in lost time and money of hiring (and then firing) the wrong employee.

Large companies have developed effective hiring techniques and procedures to lessen this risk. If you, the owner-manager of a small firm, are going to effectively manage your operation you, too, must apply good staffing techniques.

Setting Personnel Policies

First, know yourself. Know what business you are in. Know your personal abilities and weaknesses, and try to anticipate how you will deal with the situations that arise in the daily operation of your business.

Standardize matters such as hours of work, time record keeping, paid holidays, vacation, conduct and dress regulations, wages, promotions, overtime, separation procedures, severance pay, pension and retirement plans, health care benefits and grievance procedures. Do not leave these matters to the whim of a supervisor. Establish employment and training procedures to get the job done the way you want it done.

When you have developed personnel policies, put those that affect employees in writing and give each employee a copy. For the small business, this statement may consist of one or two typed pages. For larger operations, it forms the core of an employee handbook.

It is very important to have written personnel policies. They help to resolve minor issues quickly; in more complicated matters, courts can rely on them as authority.

Consider written policies for the following areas:

Hours. Consider the number of work hours per week, the number of days per week, evening and holiday work, and the time and method of payment for both regular and overtime hours. Unnecessary payment of overtime at premium rates cuts profits. With planning, you should be able to organize your employees' work to keep overtime at a minimum. When peak periods occur, consider using part-time help paid at regular rates.

Compensation. The bulk of the retail salesperson's earnings should come from a base salary competitive with that offered by other local firms. It may be possible to supplement the base salary with an incentive such as a small commission or quota bonus plan. Try to relate the incentive both to your goals and to the goals of your employees. Whatever plan you choose, be sure each employee understands it completely.

Employee benefits. Consider offering your employees discounts on merchandise, free life insurance, health insurance, a pension plan and tuition payments to schools and colleges. You might also look into joining other merchants in a group disability plan and a group workers' compensation plan. Such plans could mean a considerable savings in your premium costs. (For details see SBA publication PM3, *Managing Employee Benefits*.)

Retirement. What are your programs for retirement benefits to supplement Social Security, such as pension plans and annuity plan insurance?

Leave. How long will vacations be? Will you specify the time of the year they may be taken? With or without pay? Will you allow employees time off for personal needs, emergencies in the family, holidays, special days such as election day, special religious observances, Saturday or Sunday holidays? What about lunch hour and work breaks during the day? What about jury duty, service in the local volunteer fire department or the local National Guard and Civil Air Patrol units?

Training. Be certain each employee has adequate training for the job. In a small business, the training responsibility normally falls to the owner-manager. If you have supervisors, each one must recognize the importance of being a good teacher and must schedule time to teach new people.

Probation. At the beginning of employment it is usually a good idea to have a probation or trial period of 60 to 90 days to make certain the employee is a good "fit" for your operation. Problems can be identified and corrected.

Probation also is useful for correcting serious performance problems that develop during the course of employment.

Grievances. Regardless of the quality of the employment you offer, there will be conflicts with employees. Plan for grievances and establish procedures for handling them. Consider the employee's right to demand review and establish provisions for third party arbitration.

Promotion. Consider promotion matters including normal increases of wages and salaries, changes of job titles and the effect of your company's growth on employee advancement.

Smoking. Your policy for smoking on the job or on the work premises should be clear and enforced.

Substance abuse. Use or abuse of alcohol or illegal substances on the job is usually grounds for termination, especially after one or two warnings (your written policy will state the number of warnings required). But what of use or abuse outside work, when the aftereffects affect job performance through tardiness, absence, inattention, mood swings, avoidable accidents and so on? Are you aware of local social services available to help troubled employees? Your policy on substance abuse must be clear, in writing and enforced.

Safety and security responsibilities. Every employee has certain responsibilities to help preserve safe and secure working conditions, be it opening the doors in the morning or locking up at night, tending a cash register, being alert for shoplifting, being alert for conditions that can cause injury, knowing what to do in case of a robbery or other emergency. Your training program should include this information.

Attire. Do you require uniform attire? If so, who provides and pays for uniforms—you or the employee? Do you have other requirements for attire? These should be stated clearly, as should requirements for safety or sanitary garb.

Personal use of company equipment or facilities. Occasionally an employee may ask to use company equipment or facilities, such as a telephone, copy machine, facsimile machine, word processor, typewriter or tools. Limits or prohibitions on such use should be clear from the beginning of a person's employment.

Confidential information. "What you see here or hear here, stays here!" These are good watchwords for every employee, to protect not only the business but its customers too. Gossip, faulty conclusions based on incomplete information, speculation or premature discussion of company plans or expectations can seriously harm and perhaps destroy a business or its customers. You should warn employees of this danger.

Personnel evaluation. You should periodically evaluate each employee's performance. What factors will you consider? Will you ask the employee's opinion of his or her performance, how it can be improved and how overall operations can be improved? Will you discuss your evaluation with the employee? Will you cite serious deficiencies in writing and set a deadline for improvement (see earlier comments on Probation)? Will you make salary adjustments and training recommendations based on your review?

Termination. Although termination is distasteful to many business owners, it is wise to have a written policy on matters such as layoffs, seniority rights, severance pay and the conditions that warrant summary discharge. Document in writing all events leading to a summary discharge, as this evidence will be critical in determining your liability in unemployment compensation claims as well as possible civil actions.

Determining Needed Skills

The trick to finding the right person for the job is to decide what skills are needed. Once you know what a job requires, you can match an applicant's skills and experience to it.

The first step in analyzing a job is to describe it. Suppose, as a busy owner-manager, you want someone to relieve you of some of your duties. Look at the functions you perform and determine your strengths and weaknesses.

Suppose you decide you need help in the office. The phone is always ringing. Letters that need answers are piling up. Merchandise must be ordered.

Once you have a job description on paper, consider the skills the job requires. What is the lowest level of skill you can accept? In this example, assume you decide initially to hire a secretary, but discover that secretaries are scarce and expensive in your area. Word processors are almost as hard to find and nearly as expensive as secretaries. Hiring a typist may be easier and cheaper than hiring a secretary or word processor. Many high school students are well qualified as typists, and many are seeking part-time work.

One additional point: When you start looking for someone to fill your job, make sure you spell out exactly what you want. Say you are advertising for a "sales clerk." What should the applicant be able to do? Tally sales receipts accurately? Keep a customer list and promote your products to these people? Run the store while you are away? The job of "sales clerk" means

different tasks to different people. Make sure you know which skills the employee must have and which ones you can teach him or her.

Finding Applicants

When you have identified the skills needed you are ready to contact sources that can help recruit job applicants.

Each State has an employment service (sometimes called Job Service, Public Employment, Unemployment Bureau or Employment Security Agency). All are affiliated with the United States Employment Service, and local offices are ready to help businesses needing employees.

The employment service will screen applicants by giving aptitude tests (if they are available for the skills you specify). Passing scores indicate the applicant's ability to learn the work, so be specific about the skills you need.

Private employment agencies will also help recruit; however, the employee or the employer must pay a fee to the agency for its services.

Another source of applicants is a "Help Wanted" sign in your front window. The disadvantages to this method are that unqualified applicants may inquire about the job, and you cannot conduct an interview and conduct your business at the same time.

Newspaper advertisements reach a large group of job seekers, and you can screen them at your convenience. If you list a company telephone number, you may end up on the phone instead of dealing with your customers. A "blind ad," using a box number at the newspaper, can protect your identity while you screen applications.

Schools are a good source of job applicants. The local high school may have a distributive education program in which students work for you part-time while they learn about your business. Many part-time students become permanent employees after they finish school.

You may find job applicants by contacting friends, neighbors, customers, suppliers, present employees, local associations such as the Jaycees, service clubs to which you belong or even a nearby armed forces base, where people may be leaving the service or their dependents may be seeking work. The downside of using this method is that the goodwill of these sources may be affected if they recommend a friend you do not hire or if you fire the person they recommended.

Your choice of recruitment depends on your type of business, your location and you. There are many possible

sources to choose from—if you are willing to invest the time and effort you will find the right applicant with the correct skills for the job.

Application Forms

The crucial part of your work is hiring the one right employee. You need some method of screening applicants to select the best one for the position.

The application form is a tool to ease the task of interviewing and selection. You need to collect sufficient information, but also to keep the form as simple as possible. Use care in seeking personal information that is not job-related. You may copy the sample form below.

Have applicants complete the application before you talk to them; it makes an excellent starting point for the interview. It is also a written record of experience and former employers' names and addresses. Moreover, it is your first demonstration of how well the applicant follows instructions.

Remember, the Civil Rights Act of 1964 prohibits discrimination in employment practices because of race, religion, sex or national origin. Public Law 90-202 prohibits discrimination on the basis of age with respect to individuals who are at least 40 but less than 70.

Federal laws also prohibit discrimination based on physical handicap. After 1994, Public Law 101-336 will require employers with at least 15 employees to take affirmative steps to reasonably accommodate the needs of the disabled whom they employ.

Public Law 99-603 prohibits the hiring of illegal aliens and requires that you maintain certain documents indicating you have obtained proof of citizenship or alien-worker eligibility from your employees.

When an applicant has had work experience, other references are not very important. However, if work experience is limited, additional references may be obtained from other individuals, such as school counselors, who can give objective information. Personal references are almost useless, as most applicants list only people who have a kind word for them.

Interviewing Job Applicants

The goal of the job interview is to find out as much as you can about the applicant's work background, especially work habits and skills. Your major task is to get the applicants to talk about themselves and about their work habits. The best way to go about this is to ask specific questions. What did you do on your last job? How did you do it? Why was it done?

Employers are prohibited from inquiring of a job applicant as to whether they have a disability. Any question or act designed to determine disability status of a potential employee might be considered discriminatory. Questions must relate to the individual's ability to perform essential functions of the job.

Evaluate the applicants' replies. Do they know what they are talking about? Are they evasive or unskilled in job tasks? Can they account for discrepancies?

When the interview is over, ask the applicant to check back with you later, if you think you are interested in hiring him or her. Never commit yourself until you interview all likely applicants. You want to be sure you select the right employee.

Next, verify the applicant's information. A previous employer is usually the best source. Sometimes previous employers will provide information over the telephone, but it is usually best to request information in writing and to ask for a written reply.

To ensure a prompt reply, you should ask previous employers a few specific questions about the applicant that can be answered by a "yes" or "no" check or with a very short response. For example: How long did the employee work for you? _____. Was his/her work poor _____ average _____ excellent _____? Why did the employee leave your employ?

Once you verify the information on all applicants, you are ready to make a selection. The right employee can help you make money. The wrong employee will cost you money in wasted time, materials and perhaps customers.

NOTICE: This application is valid until _____
If you are still interested in employment at the end of this period, you must file a new application.

Application for Employment

Falsification of any information requested may be grounds for refusal to hire or for termination should the falsity be discovered after hiring.

Position _____

Name _____
Last First Middle

Present Address: _____
Street City State ZIP

Telephone No.: _____

I-9 Identification:

Social Security No. _____ Driver's License No. _____

Green Card _____ Work Permit _____

Passport (country & exp. date) _____ Birth Certificate _____

Successful applicants will be required to produce document(s).

Indicate dates and places you attended school:

_____ Elementary, _____ from _____ to _____

_____ High School, _____ from _____ to _____

Graduate? Year _____

_____ from _____ to _____
(Name of college)

Degree? _____

Our employees are bonded. Can you be bonded? _____ If Yes, in what job? _____

Other training (include dates): _____

Special skills, accomplishments, awards: _____

Application for Employment (Continued)

List below all present and past employment, beginning with most recent (include military service, if relevant):

Name & Address of Company	From Mo/Yr	To Mo/Yr	Name of Supervisor	Reason for Leaving	Weekly Salary	Describe Work You Did

May we contact the employers listed above? _____

If not, indicate those you do not wish us to contact.

Signature _____

Date _____

Remarks:

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ESTABLISHING A PAY SYSTEM

Pay administration is a management tool that enables you to control personnel costs, increase employee morale and reduce work force turnover. A formal pay system provides a means of rewarding individuals for their contributions to the success of your firm, while making sure your organization receives a fair return on its investment in employee pay.

This section provides time-tested concepts for determining competitive pay levels and for maintaining fair pay relationships among the jobs of a small company.

Who Needs a Pay Administration Plan?

Pay administration may be a term for something you are already doing but haven't bothered to name. Or perhaps your organization has not been paying employees according to any system, but waiting until unrest prompts pay adjustments—using payroll dollars to put out fires, so to speak.

A formal pay plan, one that lets employees know where they stand and where they can go with respect to take-home dollars, won't solve all of your employee relations problems. It will, however, eliminate an area of doubt and rumor that may keep your work force anxious and unhappy—and less loyal and more mobile than you'd like them to be.

What's in it for you? In business—particularly small business—good people make the difference between GO and NO GO. Many people like a mystery, but not when it's about their pay. Employees under a pay plan they know and understand can see that it is equitable (fair) and equable (uniform), that pay isn't set by whim. They know what to expect and what they can strive for. Such a plan can help you recruit employees, keep employees and motivate employees. It can help you build a solid foundation for a successful business.

Developing the Plan

A foremost concern in creating a formal pay administration plan is to get the acceptance, understanding and support of your management and supervisory employees. A well-defined, thoroughly discussed and properly understood plan is a prerequisite for success.

A formal pay plan doesn't have to be costly in time and money. Formal doesn't mean complex. In fact, the more elaborate the plan, the more difficult it is to practice, communicate and carry out.

In establishing a pay plan,

- define the jobs,
- evaluate the jobs,
- price the jobs,
- install the plan,
- communicate the plan to employees and
- evaluate employee performance under the plan.

Defining the Jobs

Unless you know each job's specifications and requirements, you can't compare them for pay purposes. It's no surprise, therefore, that the initial step of installing a formal plan is preparing a job description for each position.

You may be able to write these descriptions yourself, as in many small businesses the owner-manager at one time or another has worked at just about every job. However, the best and easiest way to put together this job information is to ask employees to describe their jobs. Supervisors should be asked to review the descriptions.

Prepare a simple form to be filled out by the employee (or by someone interviewing the employee). This is the time to explain to employees what you are doing. Tell them you need their help to develop the pay plan; that you are not trying to find out how well they are doing their jobs, just what they do. The form should contain the following categories:

- Job Title
- Reporting Relationship
- Specifications
- Primary Function (What is the main responsibility of the job?)
- Main Duties (List main duties in order of importance and estimate the percentage of time spent on each.)
- Other Duties (List duties not performed regularly.)

• Job Requirements

- Technical/Administrative Complexity
- Formal Education or Training Required*
- Experience or Background Required*
- Responsibility for Dollar Results
- Responsibility for Supervision
- Unusual Working Conditions

It will take time to prepare job descriptions from the information your employees provide, and what you learn may have other uses besides comparing jobs for pay purposes. For example, you may discover that some employees are not doing what you thought they were or what they were hired to do. You may find you want to make changes in their work routines. The information may also be useful for

- Hiring, training and developing employees;
- Realigning duties in the organization;
- Comparing job data for salary surveys;
- Assuring compliance with various employment practice and pay rate laws and
- Evaluating job performance based on assigned duties.

Evaluating the Jobs

Nobody knows a scientific, precise way of deciding the exact worth of a particular job. Human judgment is the only way to put a dollar value on work. A good job evaluation method for firms with 100 or fewer employees is "simple-ranking." It's a guess, too, but a well-controlled guess.

Under the simple-ranking system, job descriptions are compared against each other by ranking them according to difficulty and responsibility. Using your judgment, you end up with a document showing an array of jobs and the relative value of each to the company.

After ranking the job descriptions by value to the firm, group jobs similar in scope and responsibility into the same pay grade. Then arrange the groups in a series of pay levels from highest to lowest. The number of levels depends on the total number of jobs and types of work in your organization, but for a company with 100 or fewer jobs, 10 or 12 pay levels is usually about right.

*Have your supervisors review these items, then decide if the levels of training and experience your employees have is really what you want for their positions.

Pricing the Jobs

Thus far in establishing a pay system, you've looked only inside your company. You also should look outside at the going rates for similar work in your area. Because you have ranked and grouped jobs in pay levels, you won't have to survey each job. Survey those on each level that are easiest to describe and are most common in local industry. Do try, however, to survey jobs with more than one level, for example, junior and senior typists.

You probably have neither the time nor the money to make such a survey yourself; but you should be able to get all the data from sources such as your local chamber of commerce, major firms in your area, or from such national sources as the U.S. Bureau of Labor Statistics, the Administrative Management Society or the American Management Association. If you belong to a trade association, you may be able to enlist its help in determining the going rate for one or more jobs at each pay level.

Make sure you compare job descriptions, not just job titles. There can be great differences between what one organization and another call their jobs—one firm's janitor may be another's environmental control engineer.

After you are satisfied that you are comparing apples and apples, compute an average rate (the averages in this publication are purely arbitrary) for each job and enter it on a worksheet as follows:

Pay Level	Position	Average Rate
1	Clerk-typist	\$574
2	Word Processor	635
3	Payroll Clerk	687
4	Secretary	723
5	Accounting Clerk	741
6	Computer Operator (and so on)	815

You may need to adjust the average rates somewhat to maintain a distinction between pay levels. The going rates for each pay level can then become the midpoints of your pay level ranges. (You can, of course, set midpoints above or below the survey averages, based on your company's ability to pay, the length of your work week, and the type and value of your benefit programs.)

Typically, the minimum rate in a level is 85 percent and the maximum rate 115 percent of the midpoint. With this arrangement, an employee can increase his or her earnings by 35 percent without a job change; thus, there can be performance incentives without promotions.

You now have a pay range for each position in your organization. It will resemble the following example:

Pay Range—Sales Clerk

Pay Level	Minimum	Midpoint	Maximum
1	\$490	\$575	\$660
2	530	625	720
3	580	685	785
4	615	725	835
5	690	815	935
	(and so on)		

A pay range will enable you to tell where your employees' pay and pay potential stand in relation to the market rates for their kinds of work. It should show you at a glance where changes are needed to achieve rates that are fair within your organization and pay that is competitive with similar businesses in your community.

With a planned pay structure you should be able to tie individual rates of pay to job performance and contribution to company goals. It should also provide enough flexibility to handle special situations.

Installing the Plan

At this point you have the general plan, but of course you don't pay in general; you pay each employee individually. You must now consider how to administer the plan for individual pay increases.

There are several approaches to pay increases:

- Merit increases to recognize performance and contribution;
- Promotion increases for employees assigned to different jobs at higher pay levels;
- Progression to minimum for employees who are below the minimum or hiring rate for the pay level;
- Probationary increases for newer employees who have attained the necessary skills and experience to function effectively;
- Tenure increases for time with the company; and
- General increases to help employees stay current with inflation and to keep pay competitive.

These approaches are the most common, but there are many variations. Most annual increases are for cost of living, tenure or employment market reasons. Several, all or combinations of the increase methods can be used.

It is helpful to have a form to document salary increases and record the reasons. Over the years such records are good references for pay administration purposes.

Telling Employees About the Plan

Once your pay administration plan is in place, you must tell employees about it. If setting up a good program is number one in importance, a close number two is explaining the plan to employees.

Some employers write a personal letter to each employee, others hold meetings to explain the plan and answer questions, still others do both.

However you tell employees, be clear, honest and open in explaining how the plan works. This is a prime opportunity to build goodwill and good relations with your employees. Be sure your supervisors understand and can explain the plan to their people. Explaining the plan to new hires is essential, and it is a good idea to review the plan periodically with all employees.

Performance Evaluation

Most employees in the American labor force are under a merit increase pay system, although their pay increases frequently result from other factors. This approach involves periodic review and evaluation of how well employees perform assigned duties. An effective employee evaluation plan

- Achieves better two-way communications between the manager and the employee,
- Relates pay to work performance and results,
- Provides a standardized approach for evaluating performance, and
- Helps employees see how they can improve by helping them understand job responsibilities and expectations.

Such a performance review helps not only the employee whose work is being evaluated, it also helps the evaluating manager gain insight into the organization. An open exchange between employee and manager can show the manager where improvements in equipment, procedures or other factors might improve employee performance. Try to foster a climate in which employees can discuss progress and problems informally at any time throughout the year.

Again, to get the best results it is a good idea to use a form for evaluation. A typical form includes such job performance factors as

- Goals achieved,
- Quality of performance,
- Volume of work,
- Effectiveness in working with others in firm,

- **Effectiveness** in dealing with customers, suppliers and other outsiders,
- Initiative,
- Job knowledge, and
- Dependability.

You can design your own form, using examples from books on personnel administration, if necessary. Follow from your job analyses and tailor your forms to the jobs.

How Can the Plan Help You?

The finest pay plan in the world won't be of any use if it doesn't help your business. What's in it for you? The answer is hiring, keeping and encouraging good employees. Your pay plan will help you

- **Recruit**—The pay ranges will provide competitive hiring rates for attracting high-caliber employees.
- **Retain**—The performance evaluation plan and pay increase feature will encourage performance plus growth and development within your organization.

- **Motivate**—The pay plan will provide goals to keep employees interested in and enthusiastic about their present assignments and also provide the incentive to seek greater opportunity within your company.

Capable, interested and enthusiastic employees will help you win the battle for business survival and growth.

Updating the Plan

Review your pay administration plan at least annually and adjust where necessary. Don't forget to retrain supervisory personnel.

During your annual review of the pay plan, ask yourself the most important question: Is it working? Are you getting the kind of employees you want or are you just making do? What is the turnover rate? Do employees care about the business? In the end it is not the elegance of the plan or the beauty of the forms and administration that matters; it is how the plan helps you to achieve the objectives of your business.

ALTERNATIVE STAFFING SYSTEMS

How do you cope with unexpected personnel shortages? Many businesses face this question because of seasonal peaking, inventory taking, special projects, several employees simultaneously on sick leave or an unexpected increase in business.

And what about coping with the rising costs of providing employee benefits, as well as all the payroll record keeping required by local, state and federal government? Or short- or long-term needs of your business that require special expertise?

This section discusses alternatives available to meet these and other staffing challenges. Options include

- Temporary help services,
- Employee leasing,
- Payroll accounting and
- Service contracting.

Temporary Help Services

Using the services of temporary personnel firms often provides a convenient and economical solution to

unexpected employee shortages. This section explains these services, points out some of their advantages and outlines steps to obtain the best possible results.

Almost every business needs extra help at one time or another. A rush order comes in; the work load suddenly zooms, then drops back to normal. More employees than usual are absent because of illness or vacations. A special project needs immediate attention. Seasonal demands must be met or inventories taken without disrupting normal business. The extra-heavy work load puts a strain on you, on your employees and, if the overtime is required, on your budget.

Temporary shortages of personnel are especially difficult for smaller businesses. The staff is small and there is little leeway for shifting schedules, yet they cannot afford to keep extra employees when the work load is normal.

You can recruit extra workers yourself, use a public or private employment agency or call on a temporary personnel service. These specialized firms can usually provide you with a wide variety of people; some of the larger services handle complete departments, including supervisors and workers.

What Is a Temporary Personnel Service?

A temporary personnel service is not an employment agency. Like many service firms, it hires people as its own employees and assigns them to companies that request help. When you use such a service you are not hiring an employee; you are buying the use of his or her time. The temporary personnel firm is responsible for payroll, bookkeeping, tax deductions, workers' compensation, fringe benefits and all similar costs connected with the employee. You avoid recruiting, interviewing, screening and even testing and training if these are necessary. Most national temporary personnel companies also offer performance guarantees and fidelity bonding at no added cost to clients. In addition, they assume responsibility for reporting withholding tax, social security and unemployment compensation to government agencies.

You can contract for a receptionist, typist, secretary, word processing operator, bookkeeper, switchboard operator, product demonstrator, packer, added sales personnel or many other types of office, professional and industrial workers.

Consider temporary personnel when a temporary second shift allows you to make better use of expensive equipment investments. Sales blitzes to introduce products, special quarterly or year-end invoicing, special telephone sales programs or order taking, and seasonal catalog sales are other examples. Some companies contract for teams of temporary people to microfilm documents, retrieve information and maintain files. Temporaries also are in wide use at trade shows, product samplings and demonstrations. National temporary firms offer the smaller company a way to handle a national marketing effort, to compete with larger organizations without excessive permanent overhead.

You can contract for temporary personnel for a day or for a much longer period. Some temporary personnel companies specialize in one type of help, such as office workers. Others supply a broad range of personnel, from unskilled labor to accountants and engineers.

Why Not Hire Your Own Temporary Personnel?

Hiring temporary workers on your own has several important disadvantages. It may hamper your efforts to attract good permanent employees. Once an emergency is over, laying off employees can lower morale among the regular employees and, if this happens too often, it may give your firm a reputation for instability.

Another disadvantage is that you may not be able to get help when you need it. There may be times when the

labor market is tight and the skills you need are not readily available. Also, why waste time orienting new people for short-term employment?

The financial aspect of hiring short-term personnel is also of major importance. Using temporary personnel may cost more than hiring additional employees, although there are many costs not usually considered. As an example, mandatory costs—such as social security, unemployment insurance and workers' compensation—amount to over 11 percent of the base salary. Payment for time not worked, including vacations, holidays and sick days, amounts to almost 9 percent. Company-paid benefits—health insurance, pension plans, discounts, record keeping, payroll and other paperwork—amounts to another 6 to 7 percent. Total hidden costs can be about 42 percent. Therefore, a basic \$150 weekly salary can cost about \$213.

Advantages of Using a Temporary Service Firm

Workers supplied by a temporary service firm are quickly available. Usually they can start the day after a request is made and, in some cases, are available the same day. Experienced and well qualified, they need little assistance to begin functioning. Thus, you can adjust to fast-breaking opportunities or problems without interrupting regular production schedules.

Although the hourly rate paid to a temporary service firm is higher than the base salary of an employee you hired yourself, the cost of getting the work done is less. As noted earlier, using a temporary service firm does away with many costly personnel recruiting and record-keeping operations. In addition, you save the cost of training, overtime and idle periods. When you use a temporary firm you pay only for the actual time worked.

Every company has a department in which turnover is high. By using temporary personnel for such jobs you can improve turnover rates and reduce the number of unemployment claims against your company until you have time to restaff. Claims experience determines, in part, the cost of unemployment insurance; therefore, reduction of turnover can result in large savings for your entire payroll.

When Not To Use a Temporary Service

In considering the use of a temporary service, weigh the disadvantages to your company as well as advantages. Regular employees who lose overtime pay because of temporary workers may become a morale problem. Highly specialized work may require a training period, which may make the use of temporary personnel less economical.

If you need a temporary worker for six months or longer you should hire a full-time employee. There are also cases in which the job is so complex it requires extensive supervision if the worker is unfamiliar with your procedures. In such instances, it may be more economical to pay overtime to a regular employee than to use a temporary worker.

What Will It Cost?

Charges by temporary service firms vary widely with the type of help you contract. Obviously, rates are higher for the more skilled office or industrial worker than for the less skilled. Rates vary from city to city also, as most temporary service firms pay employees the going rate in that particular area for a given job. They charge you this rate, adding a basic markup for administrative costs and a fair profit.

You pay an hourly rate to the temporary service firm. They pay the employee. Most reputable services do not charge for hours worked by an unsatisfactory worker if you let them know promptly. Normally you must notify them within four hours after the employee reports for work, but this requirement varies with individual firms.

If you are to get the most for your dollar investment, you must analyze your needs and plan to make the best possible use of the time and skills of the temporary employee. The following guidelines will be helpful.

How To Select a Temporary Service Firm

There are many temporary service firms throughout the United States. Some operate regionally and a few nationally. If you are likely to need temporary workers, do some exploring in advance.

Check with your local chamber of commerce, your attorney, your accountant, your banker. Look in the Yellow Pages of the telephone directory under "Employment, Temporary," "Employment Contractors-Temporary Help" or a similar heading.

Try to meet in person with an executive of the firm you select. A short discussion will help him or her understand your operation, problems and needs. You, in turn, can gain an understanding of services the company provides.

Evaluate the company and its ability to serve you properly by these factors:

Reliability. Is the service well established, with a history of success and financial stability? Check the annual report if it is a public company or ask for a certified financial statement to determine if it is a stable organization.

Recruiting. Competition for skilled, reliable employees is intense. The firm with an aggressive recruiting program is more likely to have the most skilled and reliable employees.

Testing and evaluating. How do its testing and evaluating personnel assure quality workers? Does the firm check references?

Training programs. Certain skills are always scarce. Does the company train people in various aspects of office work, such as modern office methods, word processing, records management? Are typing and shorthand skills upgraded? Training is especially important in areas such as word processing; the company should carefully train operators on the newest types of equipment and in the newest techniques.

Retention programs. Does the company have a good program to keep qualified employees? This will ensure that you receive qualified workers when you need them.

Professional permanent staff. The temporary service's permanent staff should be experienced in the personnel field, knowledgeable professionals who will understand your needs.

Knowledge of your needs. Does the firm make every effort to investigate your needs? Do they understand what you are discussing with them?

Prompt service. The temporary service firm with a supply of workers available on short notice can be most important when you are in a rush.

Quality control. Does the company check with you to determine the quality of work temporary employees are doing?

Insurance protection. Does the firm protect your company with adequate insurance coverage, including fidelity bonds and workers' compensation?

Guarantee. Does the temporary service firm guarantee your satisfaction with each temporary employee? Does it have a refund or guarantee policy? What are its terms?

Plan Early

The key to the successful use of temporary employees is to plan what kind of help you will need, how much and when. Your accurate information will help the temporary service to efficiently supply your needs.

To plan properly, answer these questions:

- How seasonal is my business?

- Do any of my regular employees have to work overtime to meet peak work loads? What does the overtime cost?
- If there is extensive overtime, will there be a performance lag and possible morale problems during regular working hours? With better planning can I spread peak work loads out over the year?
- Are my deliveries made on schedule?
- Do customers often order with rush jobs? If so, can I help them plan their needs further in advance?
- Are my employees' vacations scheduled around peak seasons?
- What extra help do I need to cope with these problems and to reduce costs?

Meet with key personnel who plan day-to-day operations. Study production schedules. Note peak periods. Compare this year with previous years. A pattern will emerge and you will be able to see where some extra help can avoid problems and keep costs down.

What To Do When the Time Comes

It is extremely important to inform the temporary service of your exact needs. A good temporary firm needs detailed descriptions of your company and the positions you are filling. They will ask for information about the department the employee will be working in, duration of the assignment, working hours, dress code, smoking rules and other important information. Will you need a copy typist or a clerk-typist, for example? Does the secretarial position require shorthand or are there machine transcriptions to type? What kinds of word processors, typewriters and office equipment do you have? Does the employee need special knowledge or skills? If you define needs exactly you will get qualified people and will not pay for skills not needed. Most larger temporary service firms have special advisors to work with you and help you plan. In summary,

Estimate Your Needs

Decide specific requirements of the job. Exactly what talents do you need? How long will you need the employee? Don't ask for someone with higher qualifications than the work requires. On the other hand, don't try to economize by getting underqualified help and expecting the worker to carry out tasks he or she cannot handle.

Give the Temporary Help Service Full Information

If the temporary personnel firm is to help you get the best results at the lowest possible cost, you must provide detailed information about the work. If possible, send samples of the work. Be sure to give the exact location of your business, transportation available, parking information, and the name and title of the person to whom the temporary employee will report.

Preparing for the Temporary Employee

Before the temporary employee reports for work

Tell your permanent employees. Let your staff know you will have temporary extra help. Explain the reasons and ask their cooperation with the new employee.

Arrange for supervision. Appoint a permanent employee to supervise the temporary worker and to check occasionally on work progress. Be sure the supervisor understands the job to be done and his or her responsibility.

Prepare the physical facilities. Before the temporary worker arrives, see that all necessary materials are available and equipment is in place and in good working order. Organize the work so the employee can begin producing with a minimum of time spent adjusting to the job and the surroundings.

Plan the work load. Establish schedules that are possible to complete in the allotted time. Try to stay within time limits, but plan to extend the time period rather than crowd the employee. Rushing and overwork can cause costly mistakes.

Prepare detailed instructions. Describe your type of business, the products you manufacture or the services you offer. Be specific in outlining company procedures.

The Work Begins

You've made the preparations. The employee has arrived and is ready to start work. What now? How do you get a temporary worker started? What should you expect? What if you're not satisfied?

Help the employee settle in. Receive the temporary employee as you would receive one hired permanently. Make the person feel like a member of your team. Explain where to hang coats, location of the washroom, lunch hour and coffee breaks. Introduce the temporary employee to the work supervisor and to permanent employees in the same department: "Ms. Jones will be here for a few days to help out." Or "Mr. Smith will be here this week working on the rush job."

Explain the job. Go over the work assignment and the instructions. Explain company routines. Make directions as simple as possible and provide samples of the work to be done. If the work is complex, explain it clearly and make certain you are understood. Assure the temporary employee of your staff's willingness to help and your own interest and concern.

Don't expect the impossible. How much can you expect from a temporary employee? Fully as much as you contracted for with the temporary service firm. Most employees of these firms have experience, are versatile and perform well. Because they have worked for a variety of businesses they have learned to adapt quickly to new situations and they know future assignments depend on their doing satisfactory work.

Don't expect the impossible. Don't overload temporary employees; make a slight allowance for the fact they are not familiar with your business. Check the work occasionally, ask for questions and never let the employee feel stranded or left out. However, don't hover. And don't push or prod too much.

Judging the Overall Results

Within a few hours after the temporary worker arrives, you will be able to judge how the work is going. If you are not satisfied, notify the temporary service firm.

You have a right to expect a conscientious, interested employee who will put in a full day's work. A good temporary service firm will ask you to evaluate the employee's work at the end of the assignment.

To measure the value of temporary services in your business operation, keep these points in mind to help you plan for future needs:

- Did the productivity of the employee justify the cost?
- Was the work completed accurately and effectively?
- Did using a temporary worker benefit overall operations?
- Were there any disadvantages?

Your evaluation may help you work out a program for hiring temporary personnel so you have adequate help for all work loads.

Employee Leasing

Systems of employee leasing go back hundreds of years, to "lent-servant" arrangements in England, in which landholders "leased" their own servants to other

landholders, paying their wages in return for some form of reimbursement by the lessee. It is, in many ways, similar to temporary personnel services, but employee leasing is long-term and involves permanent employees.

Usually an employer transfers the company employees to the payroll of an employee leasing firm that, in turn, leases them back to the employer.

The leasing company becomes the legal employer and is responsible for paying the workers; keeping their payroll, leave and other records; providing their benefits and services; and participating in their hiring, evaluation and firing.

Interest in employee leasing has been fueled by increased government regulation of employer-employee relations. Meeting requirements of the many laws related to employment and to employee benefit programs (see the Introduction to this publication) is extraordinarily time consuming. Moreover, the penalties for not meeting them are heavy, not only in potential costs, but in time defending one's actions.

Another key factor is the ability to provide employee benefits equal to those of large corporations. Leasing companies have far greater buying power than do small firms.

How does employee leasing differ from temporary personnel services? Leasing firms create their services for the permanent workers of an organization. Providing benefits is part of this service. Because of this, the leasing concept extends deeply into the personnel management needs of the business using the service.

Administrative/accounting work of a leasing company includes

- Creating employee payroll checks,
- Maintaining deduction records,
- Computing tax liabilities and making required bank deposits,
- Handling garnishments for courts or other taxing bodies,
- Auditing for workers' compensation insurance,
- Auditing for employee health insurance, credit union and so on,
- Auditing for unemployment claims,
- Complying with COBRA regulations on various benefits,
- Reconciling employee paychecks,
- Posting state and federal tax records,

- Preparing end-of-year W-2 statements,
- Maintaining vacation and other paid leave records,
- Responding to payroll inquiries,
- Maintaining payroll updates and changes, and
- Preparing payroll audits for other insurance programs.

Employee leasing is not a way for employers to insulate themselves from legal responsibilities or liabilities. It can be said that "employee leasing occurs when one employer, while contracting in good faith with an otherwise independent business, has retained for itself sufficient control over the terms and conditions of the employees who are on the payroll of another employer."¹ For this reason most employee leasing arrangements have joint employment implications.

In fact, one definition of employee leasing is a "contractual arrangement in which the leasing company is an employer of all or part of the client's work force. Under this arrangement employment responsibilities and liabilities are allocated between the leasing company and the client, while allowing the client to retain essential management and control of its business. The leasing company pays and reports wages and employment taxes out of its own accounts and has a right of direction and control of the leased employees."² Note the definition does not say "has *the* right of direction and control," but "has *a* right."

Advantages of Employee Leasing

- An obvious advantage is that much of the time previously spent on personnel management and accounting can be directed toward other activities that affect earnings and profit.
- Economies of scale in providing employee benefits is an even greater advantage. For example, firms with fewer than 25 employees have difficulty providing economical health benefits. An employee leasing firm can negotiate group health insurance premiums at a significantly lower cost for 100 or more employees.
- Leasing can provide a greater variety of employee benefits—including cafeteria plans, group life insurance, disability insurance, payroll savings, credit unions and certain retirement plans—than might be available otherwise.

- Help is provided in defining personnel policies and compiling employee handbooks.
- Record keeping is uniform and easily audited.

Disadvantages of Employee Leasing

- The leasing company has a right to exercise certain controls over your employment policies. This can be a two-edged sword, a hindrance and a help.
- You retain a large measure of responsibility for your work force, its productivity and conduct.
- Terminating an employee may be more difficult as a leasing company will insist on certain documentation.
- Leasing is not a way to cut corners or avoid obligations.

What To Watch Out For

Before entering an employee leasing contract you should pay particular heed to the following matters:

Labor union contracts. A labor union contract may prohibit you from engaging in employee leasing. Union members may view your actions as a way of avoiding the terms of your contract.

State laws that affect hiring of certain professionals. Some states have laws on the hiring of certain professionals such as attorneys, accountants and medical personnel.

Obtaining the consent of employees. Your employees should know fully of your plans and why you are entering employee leasing. They should understand your continuing role in their employment and supervision, as well as the role of the leasing company and how it will affect them and the benefits they receive.

These items are of concern to your employee lessor, too.

The leasing company will likely require you to place the equivalent of one payroll in an escrow or trust account. You have an obligation to meet payroll costs as regularly as if you were paying employees directly.

How To Select an Employee Leasing Firm

You should evaluate the company and its ability to serve you properly by these factors: reliability, professional staff, knowledge of your needs, prompt service, quality control, insurance protection, guarantee.

¹Willey, T. Joe, "The Changing World of Employee Leasing," *National Staff Leasing Source Book for Employee Leasing*, Vol. 1. Encino, CA, 1990.

²Willey.

Questions you should ask:

- How long has the leasing firm been in business?
- Is the leasing firm a member of an association?
- Do representatives of the firm appear competent and knowledgeable, able to answer questions promptly and intelligently?
- Are the personnel administration instruments in place?
- Who administers the employee benefits, and how?
- How does the firm train and update its professional staff?
- Are the firm's insurance carriers rated?
- Who are the firm's attorney, banker and accountant?
- Are the firm's operations computerized?
- If not, how are employee records maintained?
- Is the payroll accurate and punctual?
- Can the firm provide printed verification of payroll data?
- Does the firm have a backup for recovery of payroll?
- Is invoicing and billing understandable?
- Are records and insurance payments reviewed?
- What is the firm's capacity for improving services to the subscribers?

Before Signing the Leasing Contract

- Have all the legal documents reviewed by competent counsel.
- Know who your direct liaison with the leasing company will be when you need help or have questions.
- Be sure your leasing company carries all necessary insurance appropriate to your situation. Choose only employee leasing companies that deal with top-rated insurance companies. Association with a well-known insurance name may indicate only that certain services—not necessarily insurance coverage—are available from that firm. Top-rated firms may charge slightly higher premiums, but their coverage and service is reliable or they would not have top rating.

- Be completely candid with the leasing firm about all aspects of your business and your employees so the most reasonable and reliable arrangements can be made.

Because employee leasing companies operate in a fiduciary capacity, they must meet rigorous financial standards. All companies should be able to provide bank references and financial statements prepared by an independent certified public accountant. Ask also for client references and be certain to contact them for a report of their experience with the firm.

Payroll Service Contractors

With payroll services, the normal employer-employee relationship continues. Payroll service contractors issue paychecks, deposit taxes, prepare W-2 tax forms and handle personnel record keeping.

Payroll services depend largely on automatic data processing. Leaders in the industry include ADP, Bank of America and Paychex.

Refer to the section on Service Contracting for items to be considered when entering into any agreement for services.

Service Contracting

Many business needs are better met—because of the infrequency of the need or the specialized nature of the work—by contracting for the service rather than hiring permanent employees. Services often contracted include

- Security,
- Janitorial,
- Waste management,
- Equipment/mechanical maintenance,
- Merchandise delivery,
- Payroll accounting,
- Printing,
- Data processing,
- Messenger,
- Grounds upkeep,
- Interior decorating,
- Building upkeep (remodeling, roofing, painting) and
- Specialized services (installation, servicing and cleaning of appliances, carpeting, furniture).

In these situations you enter a contract with a business to perform specific services, during a specific period or at a specific time, for a specific price. The terms of the contract cite responsibility for providing any materials or equipment necessary to perform the service and other requirements for successful completion. It is the contracting firm's responsibility to provide staff, pay them and supervise them.

When contracting for services, it is wise to require

- References from other companies that have used the contractor and will comment on the quality of contract performance.
- Certificates of insurance demonstrating that the contractor has adequate liability and other coverage for its employees.

- Copies of required licenses for performance of certain services.
- Appropriate warranty or guarantee on the quality of the work.
- Clear payment schedule including, depending on the work, possible retainage (holding back of a portion of payments) pending satisfactory completion of a project.

Proposals for services usually are presented and detailed on standard forms designed by the contractor. It is wise to have your legal counsel review the terms of the documents before you sign them, to avoid any misunderstanding of your obligations. Such a review also may suggest amendments benefiting you that are also acceptable to the contractor.

U.S. Small Business Administration (SBA)

The SBA offers an extensive selection of information on most business management topics, from how to start a business to exporting your products.

This information is listed in *The Small Business Directory*. For a free copy write to: SBA Publications, P.O. Box 1000, Fort Worth, TX 76119.

SBA has offices throughout the country. Consult the U.S. Government section in your telephone directory for the office nearest you. SBA offers a number of programs and services, including training and educational programs, counseling services, financial programs and contract assistance. Ask about

- **Service Corps of Retired Executives (SCORE)**, a national organization sponsored by SBA of over 13,000 volunteer business executives who provide free counseling, workshops and seminars to prospective and existing small business people.
- **Small Business Development Centers (SBDCs)**, sponsored by the SBA in partnership with state and local governments, the educational community and the private sector. They provide assistance, counseling and training to prospective and existing business people.
- **Small Business Institutes (SBIs)**, organized through SBA on more than 500 college campuses nationwide. The institutes provide counseling by students and faculty to small business clients.

For more information about SBA business development programs and services call the SBA Small Business Answer Desk at 1-800-U-ASK-SBA (827-5722).

Other U.S. Government Resources

Many publications on business management and other related topics are available from the Government Printing Office (GPO). GPO bookstores are located in 24 major cities and are listed in the Yellow Pages under the "bookstore" heading. You can request a *Subject Bibliography* by writing to Government Printing Office, Superintendent of Documents, Washington, DC 20402-9328.

Many federal agencies offer publications of interest to small businesses. There is a nominal fee for some, but most are free. Below is a selected list of government agencies that provide publications and other services targeted to small businesses. To get their publications, contact the regional offices listed in the telephone directory or write to the addresses below:

Consumer Information Center (CIC)

P.O. Box 100
Pueblo, CO 81002

The CIC offers a consumer information catalog of federal publications.

Consumer Product Safety Commission (CPSC)

Publications Request
Washington, DC 20207

The CPSC offers guidelines for product safety requirements.

U.S. Department of Agriculture (USDA)

12th Street and Independence Avenue, SW
Washington, DC 20250

The USDA offers publications on selling to the USDA. Publications and programs on entrepreneurship are also available through county extension offices nationwide.

U.S. Department of Commerce (DOC)

Office of Business Liaison
14th Street and Constitution Avenue, NW
Room 5898C
Washington, DC 20230

DOC's Business Assistance Center provides listings of business opportunities available in the federal government. This service also will refer businesses to different programs and services in the DOC and other federal agencies.

U.S. Department of Health and Human Services (HHS) Public Health Service

Alcohol, Drug Abuse and Mental Health
Administration

5600 Fishers Lane
Rockville, MD 20857

Drug Free Workplace Helpline: 1-800-843-4971. Provides information on Employee Assistance Programs.

National Institute for Drug Abuse Hotline:
1-800-662-4357. Provides information on preventing substance abuse in the workplace.

The National Clearinghouse for Alcohol and Drug Information: 1-800-729-6686 toll-free. Provides pamphlets and resource materials on substance abuse.

U.S. Department of Labor (DOL)
Employment Standards Administration
200 Constitution Avenue, NW
Washington, DC 20210
The DOL offers publications on compliance with labor laws.

U.S. Department of Treasury
Internal Revenue Service (IRS)
P.O. Box 25866
Richmond, VA 23260
1-800-424-3676
The IRS offers information on tax requirements for small businesses.

U.S. Environmental Protection Agency (EPA)
Small Business Ombudsman
401 M Street, SW (A-149C)
Washington, DC 20460
1-800-368-5888 except DC and VA
703-557-1938 in DC and VA
The EPA offers more than 100 publications designed to help small businesses understand how they can comply with EPA regulations.

U.S. Food and Drug Administration (FDA)
FDA Center for Food Safety and Applied Nutrition
200 Charles Street, SW
Washington, DC 20402
The FDA offers information on packaging and labeling requirements for food and food-related products.

For More Information

A librarian can help you locate the specific information you need in reference books. Most libraries have a variety of directories, indexes and encyclopedias that cover many business topics. They also have other resources, such as

- **Trade association information**
Ask the librarian to show you a directory of trade associations. Associations provide a valuable network of resources to their members through publications and services such as newsletters, conferences and seminars.
- **Books**
Many guidebooks, textbooks and manuals on small business are published annually. To find the names of books not in your local library check *Books In Print*, a directory of books currently available from publishers.
- **Magazine and newspaper articles**
Business and professional magazines provide information that is more current than that found in books and textbooks. There are a number of indexes to help you find specific articles in periodicals.

In addition to books and magazines, many libraries offer free workshops, lend skill-building tapes and have catalogues and brochures describing continuing education opportunities.